

Financial Section

Independent Auditor's Report

PETERSON SULLIVAN PLLC

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. John Charles, Director
Department of Retirement Systems
Olympia, Washington

We have audited the accompanying financial statements of the Washington State Department of Retirement Systems as of and for the year ended June 30, 2002. The Department of Retirement Systems is a part of the State of Washington's primary government. These financial statements are the responsibility of the Department of Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington State Department of Retirement Systems as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the financial statements present fairly, in all material respects, the financial position of each of the individual funds of the Washington State Department of Retirement Systems as of June 30, 2002, and the results of operations of such funds for the year then ended in conformity with accounting principles generally accepted in the United States.

The accompanying management discussion and analysis and required supplementary information listed in the accompanying table of contents is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules as listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements of the Washington State Department of Retirement Systems. Such information has been subject to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds taken as a whole.

The introductory, actuarial, investment, and statistical sections of this report are not required parts of the financial statements, and we did not audit or apply limited procedures to such information and do not express any assurance on such information.

Peterson Sullivan PLLC
November 22, 2002

Management's Discussion and Analysis

This discussion and analysis of the Washington State Department of Retirement Systems (DRS) financial performance provides an overview of DRS' financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the Letter of Transmittal beginning on page 16 and DRS' financial statements, which begin on page 35 of this report.

FINANCIAL HIGHLIGHTS

The following financial highlights occurred during the fiscal year ended June 30, 2002:

- The combined plan net assets of all the pension funds administered by DRS decreased by \$4.1 billion during Fiscal Year 2002.
- The covered payroll requiring both employee and employer pension contributions reported during the year totaled \$12,029.9 million, representing an increase of 8%. Employee contributions decreased by 14% and employer contributions decreased by 53%.
- Net investment earnings (net depreciation in the fair value of investments, plus interest and dividend income, less investment expenses) increased by less than 1% compared to last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased \$125.4 million bringing the total benefit payments to \$1,755.6 million. Refunds of contributions paid to former retirement system members upon termination of employment increased from \$95.5 million to \$97.5 million.
- Administrative expenses totaled \$30.0 million, a decrease of 4% over last fiscal year. Project specific expenses, including the Public Employees' Retirement System (PERS) Plan 3 project, were incurred during Fiscal Year 2002.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the DRS basic financial statements, which consist of the following components: basic financial statements, notes to the financial statements, required supplementary information, and other supporting schedules.

Basic Financial Statements

The basic financial statements presented for the fiduciary funds are fund financial statements and include a Statement of Plan Net Assets and a Statement of Changes in Plan Net Assets. The fiduciary funds include defined benefit and defined contribution pension trust funds, the deferred compensation program trust fund, and the dependent care assistance program agency fund. The Statement of Plan Net Assets presented on pages 35-38 reports the assets, liabilities and resulting net assets available for pension and other benefits as of June 30, 2002. The Statement of Changes in Plan Net Assets presented on pages 39-42 reports the additions to, deductions from, and resulting net change in net assets for the fiscal year ending June 30, 2002.

The basic financial statements presented for the governmental fund include a Balance Sheet/Statement of Net Assets and a Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities. The governmental fund administered by DRS is a special revenue fund used to account for the administrative revenues and operating expenditures incurred in administering the dependent care assistance program. The Balance Sheet/Statement of Net Assets presented on page 43 has three separate columns: Balance Sheet, Adjustments, and Statement of Net Assets. The "Balance Sheet" column presents the assets, liabilities, and fund balance using the current financial resources measurement focus and the modified accrual basis of accounting. The "Statement of Net Assets" column presents the difference between assets and liabilities as net assets and uses the economic resources measurement focus and accrual basis of accounting. The "Adjustments" column displays the changes needed to adjust the Balance Sheet line items to the line items in the Statement of Net Assets. This statement reports the assets, liabilities and fund balance/net assets for the special revenue fund as of June 30, 2002. The Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities presented on page 44 has three separate columns: Statement of Revenues, Expenditures and Changes in Fund Balance; Adjustments; and Statement of Activities. The "Statement of Revenues, Expenditures, and Changes in Fund Balance" column presents the inflows, outflows and balances of current financial resources

using the current financial resources measurement focus and the modified accrual basis of accounting. The “Statement of Activities” column is presented using the economic resources measurement focus and accrual basis of accounting. The “Adjustments” column displays the changes needed to adjust the Statement of Revenues, Expenditures and Changes in Fund Balance line items to the line items in the Statement of Activities. This statement reports the revenues, expenditures, and resulting fund balance/net assets for the special revenue fund for the fiscal year ending June 30, 2002.

Notes to the Financial Statements

The notes to the financial statements presented on pages 45-68 of this report are an integral part of the financial statements and include additional information not readily evident in the statements themselves. Note 1 provides a summary of significant accounting policies and plan asset matters including the reporting entity, measurement focus, basis of accounting, investments, reserves, capital assets, long-term liabilities, financial statement formatting, and any accounting and reporting changes. Note 2 provides a general description of DRS, plan descriptions, and funding policy.

Required Supplementary Information

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the plan’s ongoing plan perspective. The required supplementary information consists of two historical trend schedules and related notes. The Schedules of Funding Progress presented on pages 69-70 include historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Contributions from Employers and Other Contributing Entities presented on page 71 includes historical trend information about the annual required contributions of employers and the contributions made by employers in relation to this requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans. The Notes to the Required Supplementary Information presented on pages 72-73 accompanies the two trend sched-

ules and summarizes the actuarial and economic methods and significant assumptions used for the most recent year.

Other Supporting Schedules

These schedules are presented on pages 74-77 and they provide additional detailed information useful in evaluating the condition of the plans administered by DRS. These schedules include information on administrative expenses, investment expenses, payments to consultants, and other additional information.

FINANCIAL ANALYSIS OF DRS FUNDS

Analysis of Net Assets – Fiduciary Funds

Net Assets	Fiscal Year 2002	Fiscal Year 2001	(dollars in millions)	
			Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets				
Cash and Pooled				
Investments	\$39.8	\$36.1	\$3.7	10%
Receivables	283.4	322.1	(38.7)	(12)%
Capital Assets, Net of				
Depreciation	1.5	1.9	(0.4)	(21)%
Investments,				
Noncurrent	44,093.3	47,142.7	(3,049.4)	(6)%
Other Assets	1.3	1.3	-	-
Total Assets	<u>44,419.3</u>	<u>47,504.1</u>	<u>(3,084.8)</u>	(6)%
Liabilities				
Obligations Under				
Security Lending				
Agreements	3,034.7	2,034.3	1,000.4	49%
Other Short-Term				
Liabilities	102.8	83.6	19.2	23%
Long-Term				
Obligations	1.3	1.3	-	-
Total Liabilities	<u>3,138.8</u>	<u>2,119.2</u>	<u>1,019.6</u>	48%
Total Net Assets	<u>\$41,280.5</u>	<u>\$45,384.9</u>	<u>\$4,104.4</u>	(9)%

Total trust fund assets as of June 30, 2002 were \$44,419.3 million and are mostly comprised of cash, investments, and contributions due from employers. This is a decline of \$3,084.8 million or 6% over the last fiscal year, and is primarily due to decreased investment earnings in the fixed income and private equity asset classes.

Total trust fund liabilities as of June 30, 2002 were \$3,138.8 million and are mostly comprised of obligations under securities lending, administrative costs, and other short-term liabilities. This is an increase of \$1,019.6 million or 48% over the last fiscal year, and is primarily due to an increase in

obligations under securities lending agreements.

Total combined trust fund plan net assets as of June 30, 2002 were \$41,280.5 million, which is a decline of \$4,104.4 million or 9% over the last fiscal year. Of this decline, \$3,049.4 million or 74% is attributable to a decrease in investment earnings in the fixed income and private equity asset classes.

Analysis of Changes in Net Assets – Fiduciary Funds

Changes in Net Assets	Fiscal Year 2002	(dollars in millions)		
		Fiscal Year 2001	Increase (Decrease) Amount	Increase (Decrease) Percentage
Additions				
Employer Contributions	\$261.6	\$559.9	(\$298.3)	(53)%
Member Contributions	412.1	481.1	(69.0)	(14)%
State Contributions	21.8	28.7	(6.9)	(24)%
Participant Contributions	119.0	107.2	11.8	11%
Net Investment Income	(2,992.2)	(2,998.2)	6.0	-
Net Securities Lending Income	3.3	(3.3)	6.6	200%
Charges For Services	28.9	28.9	-	-
Transfers from Other Pension Plans	51.1	2,386.9	(2,335.8)	(98)%
Other Additions	1.8	1.3	0.5	38%
Total Additions	<u>(2,092.6)</u>	<u>592.5</u>	<u>(2,685.1)</u>	<u>(453)%</u>
Deductions				
Benefits	1,755.6	1,630.2	125.4	8%
Refunds of Contributions	175.1	151.9	23.2	15%
Transfers to Other Pension Plans	51.1	2,386.9	(2,335.8)	(98)%
Administrative Expenses	30.0	31.2	(1.2)	(4)%
Total Deductions	<u>2,011.8</u>	<u>4,200.2</u>	<u>(2,188.4)</u>	<u>(52)%</u>
(Decrease)/Increase in Net Assets	<u><u>\$ (4,104.4)</u></u>	<u><u>\$ (3,607.7)</u></u>	<u><u>\$ (496.7)</u></u>	<u><u>(14)%</u></u>

Additions to the retirement trust funds primarily consist of contributions from employers, active system members, the state, and investment earnings. Additions to the deferred compensation trust fund primarily consist of participant contributions and investment earnings. Total trust fund additions (excluding transfers) for Fiscal Year 2002 amounted

to \$(2,143.7) million, a decrease of \$349.3 million or 19% from Fiscal Year 2001. This is primarily due to a decrease in employer, member, and state contributions. Employer contributions decreased approximately \$298.3 million or 53% because of lower required actuarial contribution rates for Public Employees' Retirement System (PERS) Plan 1, PERS Plan 2/3, School Employees' Retirement System (SERS) Plan 2/3, Teachers' Retirement System (TRS) Plan 1, TRS Plan 2/3, and Law Enforcement Officers' and Fire Fighters Retirement System (LEOFF) Plan 2. Member contributions decreased by approximately \$69.0 million or 14% due to lower required actuarial contribution rates for PERS Plan 2/3, SERS Plan 2/3, TRS Plan 2/3, LEOFF Plan 2, and Washington State Patrol Retirement System (WSPRS) Plan 1. State contributions decreased by approximately \$6.9 million or 24% due primarily to lower required actuarial contribution rates for the state for LEOFF Plan 2.

Deductions to the retirement trust funds primarily consist of the payment of benefits to retirees and beneficiaries, the refund of contributions to former retirement system members, and the cost of administering the retirement systems. Benefit payments to members include both pension and annuity benefits. Expenses for the management of trust funds are incurred by the State Investment Board and funded from earnings on investments. Deductions to the deferred compensation trust fund primarily consist of refunds paid to plan participants and administrative expenses. Total trust fund deductions (excluding transfers) for Fiscal Year 2002 totaled \$1,960.7 million, an increase of \$147.4 million or 8% over Fiscal Year 2001. This is primarily due to an increase in both benefits paid to retirees and beneficiaries and refunds paid to system members. Benefit payments increased by approximately 8% as a result of an increase in the number of retirees, and refunds increased by approximately 15%. Administrative Expenses for Fiscal Year 2002 totaled approximately \$30.0 million, a decrease of 4% over last fiscal year. These expenses include both the normal administrative expenses of DRS incurred in administering the pension funds, as well as one-time expenses directly incurred by the PERS Plan 3 project.

Transfers from Other Pension Plans and Transfers to Other Pension Plans represent transfers between the various pension plans administered by DRS. Total transfers for Fiscal Year 2002 amounted to \$51.1 million, a decrease of \$2,335.8 million or 98% over last fiscal year. The transfers for last fiscal year were higher primarily due to the implementation of SERS. During Fiscal Year 2001 the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2, which involved a transfer of \$1,902.0 million from PERS Plan 2 to SERS Plan 2. Those SERS Plan 2 members then had the option to transfer to SERS Plan 3, which accounted for \$478 million of the total transfers during last fiscal year.

Analysis of Net Assets – Governmental Fund

Net Assets	Fiscal Year 2002	Fiscal Year 2001	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets				
Cash and Pooled Investments	\$87,236	\$84,897	\$2,339	3%
Receivables	16	-	16	-
Total Assets	<u>87,252</u>	<u>84,897</u>	<u>2,355</u>	3%
Liabilities				
Accounts Payable	251	263	(12)	(5)%
Due to Other Agencies	1,242	13,423	(12,181)	(91)%
Accrued Salaries	4,543	4,243	300	7%
Total Liabilities	<u>6,036</u>	<u>17,929</u>	<u>(11,893)</u>	(66)%
Total Net Assets	<u>\$81,216</u>	<u>\$66,968</u>	<u>\$14,248</u>	21%

Governmental fund total assets as of June 30, 2002 were \$87,252, and are almost entirely comprised of cash. This is an increase of \$2,355 or 3% over the last fiscal year primarily due to an increase in the amount of cash on hand at year end.

Governmental fund total liabilities as of June 30, 2002 were \$6,036 and are mostly comprised of accrued salaries and

administrative costs. Total liabilities decreased by \$11,893 or 66% over the last fiscal year primarily due to a decrease in the amount due to other Washington State agencies at year end.

Analysis of Changes in Net Assets – Governmental Fund

Changes in Net Assets	Fiscal Year 2002	Fiscal Year 2001	Increase (Decrease) Amount	Increase (Decrease) Percentage
Revenues				
Charges For Services	\$186,527	\$167,489	\$19,038	11%
Other Revenues	2	-	2	-
Total Revenues	<u>186,529</u>	<u>167,489</u>	<u>19,040</u>	11%
Expenses				
Administrative Expenses	172,281	178,984	(6,703)	(4)%
Transfers				
Transfers to Pension Plans	-	10,887	(10,887)	(100)%
(Decrease)/Increase in Net Assets	<u>\$14,248</u>	<u>\$(22,382)</u>	<u>\$36,630</u>	164%

Governmental fund revenues primarily consist of charges for services. DRS bills state agencies with participating employees a percentage of the payroll taxes saved by the agency and uses these amounts (charges for services) to operate the program. Total governmental fund revenues for Fiscal Year 2002 amounted to \$186,529, an increase of \$19,040 or 11% from Fiscal Year 2001. This is primarily due to an increase in the amount of charges for services.

The primary expenses for the governmental fund are for the cost of administering the program. Administrative expenses for this fund include personnel expenses, goods and services, travel, and other miscellaneous expenses. Administrative Expenses for Fiscal Year 2002 totaled \$172,281, a decrease of \$6,703 or 4% over last fiscal year. This is primarily due to a decrease in the amount of expenses for goods and services.

CAPITAL ASSETS

DRS' investment in capital assets for its fiduciary activities as of June 30, 2002, amounts to \$2.5 million, with accumulated depreciation of \$1 million, leaving a net book value of \$1.5 million. This amount represents a decrease of 21% over last year, which was mainly due to an increase in accumulated depreciation. This investment in capital assets includes furnishings and equipment, and improvements other than buildings. Additional information on DRS' capital assets can be found in section H of Note 1 to the financial statements.

LONG-TERM OBLIGATIONS

At year-end, DRS had \$1.3 million in outstanding general

long-term obligations, which is a less than 1% decrease over the prior year. These long-term obligations represent DRS' liability for accumulated annual and sick leave. Additional information on DRS' long-term debt obligations can be found in section I of Note 1 to the financial statements.

CONTACTING DRS' FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of DRS' finances. If you have questions about this report or need additional financial information, contact the Department of Retirement Systems' Administrative Services Division, P. O. Box 48380, Olympia, WA 98504-8380.

Financial Statements

Statement of Plan Net Assets Pension and Other Employee Benefit Trust Funds by Plan As of June 30, 2002 (page 1 of 4)

	Pension Trust				
	PERS Plan 1	PERS Plan 2/3	PERS Plan 3 Defined Contribution	SERS Plan 2/3	SERS Plan 3 Defined Contribution
ASSETS					
Cash and Pooled Investments	\$ 3,529,771	\$ 3,124,663	\$ 32,187	\$ 5,151,201	\$ 624,003
Receivables					
Due from Other Governments	6,612,602	6,207,575	344,221	640,317	3,345,978
Member Accounts Receivable (Net of Allowance)	766,351	165,543	-	266,993	-
Interest and Dividends	38,183,778	40,141,708	34,637	5,212,881	1,400,901
Investment Trades Pending Receivable - Short Term	9,616,116	10,124,480	8,738	1,312,717	352,994
Due from Pension Funds	521,067	805,969	9,130,638	6,378,485	2,859,495
Due from Other Washington State Agencies	2,400	2,377	-	43	-
Other Receivables - Short Term	1,320	1,275	-	24	-
Other Receivables - Long Term	-	-	-	-	-
Total Receivables	<u>55,703,634</u>	<u>57,448,927</u>	<u>9,518,234</u>	<u>13,811,460</u>	<u>7,959,368</u>
Capital Assets, net of depreciation	<u>371,682</u>	<u>368,098</u>	<u>-</u>	<u>6,684</u>	<u>-</u>
Investments, Noncurrent					
Equity in CTF	9,654,319,778	10,164,702,532	8,772,678	1,317,932,357	354,396,447
Money Market Investments	81,960	6,662,744	5,750	5,807,794	1,561,735
Other Noncurrent Investments	<u>1,126,786</u>	<u>602,822</u>	<u>11,403,044</u>	<u>1,079,485</u>	<u>142,109,809</u>
Total Investments, Noncurrent	<u>9,655,528,524</u>	<u>10,171,968,098</u>	<u>20,181,472</u>	<u>1,324,819,636</u>	<u>498,067,991</u>
General Long-Term Obligations	<u>313,698</u>	<u>310,672</u>	<u>-</u>	<u>5,641</u>	<u>-</u>
TOTAL ASSETS	<u>9,715,447,309</u>	<u>10,233,220,458</u>	<u>29,731,893</u>	<u>1,343,794,622</u>	<u>506,651,362</u>
LIABILITIES					
Obligations under Security Lending Agreements	701,216,156	737,681,351	635,843	96,609,294	25,686,617
Accounts Payable	8,030,061	3,524,446	235,325	405,620	151,698
Investment Trades Pending Payable - Short Term	7,326,419	7,713,736	6,657	1,000,146	268,942
Due to Other Governments	4,442,336	426,638	-	22,195	-
Due to Pension Funds	6,168,547	10,012,343	34,638	3,054,635	632,684
Due to Other Washington State Agencies	198,211	158,714	-	2,078	-
Deposits Payable - Short Term	2,300	700	-	-	-
Other Short-Term Liabilities	2,332	3,376	-	20	-
Other Long-Term Obligations	313,698	310,672	-	5,641	-
Accrued Salaries	152,484	149,233	-	2,673	-
Deferred Revenue	269,865	450,517	-	4,082	-
TOTAL LIABILITIES	<u>728,122,409</u>	<u>760,431,726</u>	<u>912,463</u>	<u>101,106,384</u>	<u>26,739,941</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS					
(Schedules of funding progress for pension benefits are presented beginning on page 69.)	<u>\$ 8,987,324,900</u>	<u>\$ 9,472,788,732</u>	<u>\$ 28,819,430</u>	<u>\$ 1,242,688,238</u>	<u>\$ 479,911,421</u>

The accompanying notes are an integral part of this statement.

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
As of June 30, 2002 (page 2 of 4)

	Pension Trust				
	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2
ASSETS					
Cash and Pooled Investments	\$ 6,694,660	\$ 1,540,086	\$ 2,223,104	\$ 2,992,868	\$ 892,550
Receivables					
Due from Other Governments	4,320,348	727,533	12,703,169	-	4,387,202
Member Accounts Receivable (Net of Allowance)	544,365	986,802	-	56,417	55,409
Interest and Dividends	32,581,973	13,040,062	3,540,501	18,751,360	9,588,186
Investment Trades Pending Receivable - Short Term	8,203,057	3,286,874	892,741	4,723,282	2,417,519
Due from Pension Funds	450,130	4,490,950	9,538,929	256,032	97,268
Due from Other Washington State Agencies	2,073	947	-	1,179	448
Other Receivables - Short Term	1,140	521	-	649	246
Other Receivables - Long Term	-	-	-	-	-
Total Receivables	<u>46,103,086</u>	<u>22,533,689</u>	<u>26,675,340</u>	<u>23,788,919</u>	<u>16,546,278</u>
Capital Assets, net of depreciation	<u>321,082</u>	<u>146,712</u>	<u>-</u>	<u>182,630</u>	<u>69,382</u>
Investments, Noncurrent					
Equity in CTF	8,235,646,359	3,299,932,727	896,287,382	4,742,047,006	2,427,123,863
Money Market Investments	8,569,757	8,125,671	2,206,995	1,235,467	5,906,572
Other Noncurrent Investments	1,476,976	607,931	781,663,088	805,715	140,112
Total Investments, Noncurrent	<u>8,245,693,092</u>	<u>3,308,666,329</u>	<u>1,680,157,465</u>	<u>4,744,088,188</u>	<u>2,433,170,547</u>
General Long-Term Obligations	<u>270,991</u>	<u>123,824</u>	<u>-</u>	<u>154,138</u>	<u>58,558</u>
TOTAL ASSETS	<u>8,299,082,911</u>	<u>3,333,010,640</u>	<u>1,709,055,909</u>	<u>4,771,206,743</u>	<u>2,450,737,315</u>
LIABILITIES					
Obligations under Security Lending Agreements	598,694,039	239,923,000	64,962,816	344,678,443	176,122,251
Accounts Payable	6,404,795	1,096,565	316,756	2,957,975	788,679
Investment Trades Pending Payable - Short Term	6,249,824	2,504,235	680,170	3,598,620	1,841,883
Due to Other Governments	3,693,178	62,003	-	14,935	-
Due to Pension Funds	1,845,520	10,004,873	2,628,296	17,147	162,853
Due to Other Washington State Agencies	128,121	62,576	-	96,201	30,540
Deposits Payable - Short Term	-	261	-	-	-
Other Short-Term Liabilities	1,019	434	-	541	205
Other Long-Term Obligations	270,991	123,824	-	154,138	58,558
Accrued Salaries	130,530	59,454	-	74,200	27,948
Deferred Revenue	312,521	55,379	-	749	350
TOTAL LIABILITIES	<u>617,730,538</u>	<u>253,892,604</u>	<u>68,588,038</u>	<u>351,592,949</u>	<u>179,033,267</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS					
(Schedules of funding progress for pension benefits are presented beginning on page 69.)	<u>\$ 7,681,352,373</u>	<u>\$ 3,079,118,036</u>	<u>\$1,640,467,871</u>	<u>\$ 4,419,613,794</u>	<u>\$ 2,271,704,048</u>

The accompanying notes are an integral part of this statement.

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
As of June 30, 2002 (page 3 of 4)

	Pension Trust				
	WSPRS Plan 1	JRS	Judges	JRA Defined Contribution	Deferred Compensation
ASSETS					
Cash and Pooled Investments	\$ 639,967	\$ 375,362	\$ 4,783,077	\$ 6,385	\$ 6,773,356
Receivables					
Due from Other Governments	53,850	18,226	712	-	-
Member Accounts Receivable (Net of Allowance)	100	6,685	-	-	41,607
Interest and Dividends	2,525,857	14,410	11,571	15	14,595
Investment Trades Pending Receivable - Short Term	636,481	-	-	-	-
Due from Pension Funds	31,990	364	219	-	-
Due from Other Washington State Agencies	148	2	1	-	437
Other Receivables - Short Term	81	1	-	-	-
Other Receivables - Long Term	-	-	-	-	-
Total Receivables	<u>3,248,507</u>	<u>39,688</u>	<u>12,503</u>	<u>15</u>	<u>56,639</u>
Capital Assets, net of depreciation	<u>22,819</u>	<u>259</u>	<u>156</u>	<u>-</u>	<u>-</u>
Investments, Noncurrent					
Equity in CTF	639,009,719	-	-	-	-
Money Market Investments	403,808	8,165,504	-	-	-
Other Noncurrent Investments	117,193	77,683	878,978	9,306,440	1,352,998,297
Total Investments, Noncurrent	<u>639,530,720</u>	<u>8,243,187</u>	<u>878,978</u>	<u>9,306,440</u>	<u>1,352,998,297</u>
General Long-Term Obligations	<u>19,259</u>	<u>219</u>	<u>132</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>643,461,272</u>	<u>8,658,715</u>	<u>5,674,846</u>	<u>9,312,840</u>	<u>1,359,828,292</u>
LIABILITIES					
Obligations under Security Lending Agreements	46,453,749	77,924	879,123	1,182	1,090,408
Accounts Payable	438,202	115,489	8,703	-	18,475
Investment Trades Pending Payable - Short Term	484,928	-	-	-	-
Due to Other Governments	138,913	30,033	2,709	-	-
Due to Pension Funds	-	-	-	-	-
Due to Other Washington State Agencies	8,710	100	29	82	27,122
Deposits Payable - Short Term	-	-	-	-	-
Other Short-Term Liabilities	68	1	-	-	363,563
Other Long-Term Obligations	19,259	219	132	-	-
Accrued Salaries	9,128	104	62	-	33,766
Deferred Revenue	-	-	-	-	-
TOTAL LIABILITIES	<u>47,552,957</u>	<u>223,870</u>	<u>890,758</u>	<u>1,264</u>	<u>1,533,334</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS					
(Schedules of funding progress for pension benefits are presented beginning on page 69.)	<u>\$ 595,908,315</u>	<u>\$ 8,434,845</u>	<u>\$ 4,784,088</u>	<u>\$ 9,311,576</u>	<u>\$ 1,358,294,958</u>

The accompanying notes are an integral part of this statement.

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
As of June 30, 2002 (page 4 of 4)

	Agency Dependent Care	Totals	
		June 30, 2002	June 30, 2001
ASSETS			
Cash and Pooled Investments	\$ 462,393	\$ 39,845,633	\$ 36,075,357
Receivables			
Due from Other Governments	-	39,361,733	78,406,027
Member Accounts Receivable (Net of Allowance)	-	2,890,272	1,453,793
Interest and Dividends	-	165,042,435	204,962,015
Investment Trades Pending Receivable - Short Term	-	41,574,999	27,738,281
Due from Pension Funds	-	34,561,536	9,471,524
Due from Other Washington State Agencies	-	10,055	327
Other Receivables - Short Term	-	5,257	71,487
Other Receivables - Long Term	-	-	20,002
Total Receivables	-	283,446,287	322,123,456
Capital Assets, net of depreciation	-	1,489,504	1,856,138
Investments, Noncurrent			
Equity in CTF	-	41,740,170,848	44,644,607,671
Money Market Investments	-	48,733,757	64,168,737
Other Noncurrent Investments	-	2,304,394,359	2,433,963,948
Total Investments, Noncurrent	-	44,093,298,964	47,142,740,356
General Long-Term Obligations	-	1,257,132	1,261,402
TOTAL ASSETS	462,393	44,419,337,520	47,504,056,709
LIABILITIES			
Obligations under Security Lending Agreements	-	3,034,712,196	2,034,309,851
Accounts Payable	67	24,492,856	40,996,243
Investment Trades Pending Payable - Short Term	-	31,675,560	21,295,790
Due to Other Governments	-	8,832,940	8,681,854
Due to Pension Funds	-	34,561,536	9,471,524
Due to Other Washington State Agencies	-	712,484	1,043,575
Deposits Payable - Short Term	-	3,261	9,401
Other Short-Term Liabilities	462,326	833,885	429,475
Other Long-Term Obligations	-	1,257,132	1,261,402
Accrued Salaries	-	639,582	606,279
Deferred Revenue	-	1,093,463	1,078,079
TOTAL LIABILITIES	462,393	3,138,814,895	2,119,183,473
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS			
(Schedules of funding progress for pension benefits are presented beginning on page 69.)	\$ -	\$ 41,280,522,625	\$ 45,384,873,236

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2002 (page 1 of 4)

	Pension Trust				
	PERS Plan 1	PERS Plan 2/3	PERS Plan 3 Defined Contribution	SERS Plan 2/3	SERS Plan 3 Defined Contribution
ADDITIONS					
Retirement Contributions					
Employer	\$ 68,630,781	\$ 50,953,227	\$ -	\$ 11,312,441	\$ -
Plan Member	67,670,360	48,579,196	1,304,630	5,171,199	37,181,152
State	-	-	-	-	-
Plan Member Restorations	4,891,976	3,976,835	-	98,709	-
Total Retirement Contributions	141,193,117	103,509,258	1,304,630	16,582,349	37,181,152
Participant Contributions	-	-	-	-	-
Investment Income					
Net Appreciation (Depreciation) in Fair Value of Investments	(887,208,967)	(907,523,875)	(752,926)	(124,197,232)	(33,575,343)
Interest	172,649,966	175,123,950	69,632	24,544,880	5,856,319
Dividends	80,098,928	82,396,680	31,797	11,291,576	2,189,224
Less: Investment Expenses	(10,620,310)	(10,367,421)	(6,698)	(1,411,671)	(501,138)
Net Investment Income	(645,080,383)	(660,370,666)	(658,195)	(89,772,447)	(26,030,938)
Securities Lending Income					
Securities Lending Income	12,050,947	12,688,107	10,873	1,645,706	441,768
Less: Costs of Lending Securities	(11,277,587)	(11,884,033)	-	(1,953,513)	-
Net Securities Lending Income	773,360	804,074	10,873	(307,807)	441,768
Charges For Services	5,798,915	6,130,673	1,034,921	1,109,003	446,821
Transfers from Other Pension Plans	355,452	275,014	28,418,606	17,922,882	1,447,830
Transfers from Dependent Care Administrative Fund	-	-	-	-	-
Miscellaneous	176,440	186,496	-	33,742	-
TOTAL ADDITIONS	(496,783,099)	(549,465,151)	30,110,835	(54,432,278)	13,486,633
DEDUCTIONS					
Benefits	718,729,815	60,551,539	-	2,047,984	-
Refunds of Contributions	7,445,820	42,086,743	6,318	2,396,716	10,871,268
Annuity Payments	-	-	-	-	-
Transfers to Other Pension Plans	244,963	31,164,647	17,513	1,494,927	15,734,790
Administrative Expenses	6,181,098	6,270,538	1,267,574	1,117,582	175,000
TOTAL DEDUCTIONS	732,601,696	140,073,467	1,291,405	7,057,209	26,781,058
NET INCREASE (DECREASE)	(1,229,384,795)	(689,538,618)	28,819,430	(61,489,487)	(13,294,425)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of Year: July 1, As Restated	10,216,709,695	10,162,327,350	-	1,304,177,725	493,205,846
End of Year: June 30	\$ 8,987,324,900	\$ 9,472,788,732	\$ 28,819,430	\$ 1,242,688,238	\$ 479,911,421

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2002 (page 2 of 4)

	Pension Trust			
	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1
ADDITIONS				
Retirement Contributions				
Employer	\$ 59,434,042	\$ 46,358,793	\$ -	\$ 97,781
Plan Member	50,179,834	5,433,722	144,186,865	75,648
State	-	-	-	-
Plan Member Restorations	1,654,908	169,987	-	24,447
Total Retirement Contributions	<u>111,268,784</u>	<u>51,962,502</u>	<u>144,186,865</u>	<u>197,876</u>
Participant Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	(755,812,675)	(309,313,324)	(147,991,237)	(433,823,447)
Interest	147,587,231	60,969,830	13,292,201	84,414,068
Dividends	68,238,517	28,146,152	5,445,003	39,228,329
Less: Investment Expenses	(9,038,138)	(3,475,263)	(1,952,384)	(5,170,524)
Net Investment Income	<u>(549,025,065)</u>	<u>(223,672,605)</u>	<u>(131,206,417)</u>	<u>(315,351,574)</u>
Securities Lending Income				
Securities Lending Income	10,280,096	4,122,551	1,115,356	5,919,232
Less: Costs of Lending Securities	(9,620,380)	(4,901,768)	-	(5,539,370)
Net Securities Lending Income	<u>659,716</u>	<u>(779,217)</u>	<u>1,115,356</u>	<u>379,862</u>
Charges For Services	4,956,189	3,034,292	306,250	2,851,660
Transfers from Other Pension Plans	252,737	369,066	1,539,099	163,362
Transfers from Dependent Care Administrative Fund	-	-	-	-
Miscellaneous	<u>150,796</u>	<u>92,322</u>	<u>-</u>	<u>86,766</u>
TOTAL ADDITIONS	<u>(431,736,843)</u>	<u>(168,993,640)</u>	<u>15,941,153</u>	<u>(311,672,048)</u>
DEDUCTIONS				
Benefits	568,130,442	8,668,822	-	252,625,386
Refunds of Contributions	2,312,601	4,510,463	18,395,065	92,384
Annuity Payments	110,878,457	-	-	-
Transfers to Other Pension Plans	207,104	1,704,114	243,545	134,756
Administrative Expenses	5,132,288	3,107,915	175,000	3,087,910
TOTAL DEDUCTIONS	<u>686,660,892</u>	<u>17,991,314</u>	<u>18,813,610</u>	<u>255,940,436</u>
NET INCREASE (DECREASE)	<u>(1,118,397,735)</u>	<u>(186,984,954)</u>	<u>(2,872,457)</u>	<u>(567,612,484)</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1, As Restated	<u>8,799,750,108</u>	<u>3,266,102,990</u>	<u>1,643,340,328</u>	<u>4,987,226,278</u>
End of Year: June 30	<u>\$ 7,681,352,373</u>	<u>\$ 3,079,118,036</u>	<u>\$ 1,640,467,871</u>	<u>\$ 4,419,613,794</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2002 (page 3 of 4)

	Pension Trust			
	LEOFF Plan 2	WSPRS Plan 1	JRS	JUDGES
ADDITIONS				
Retirement Contributions				
Employer	\$ 23,996,574	\$ 3	\$ 229,094	\$ 8,465
Plan Member	39,400,888	1,245,408	229,094	8,465
State	15,550,761	-	6,000,000	250,000
Plan Member Restorations	84,949	-	260	-
Total Retirement Contributions	79,033,172	1,245,411	6,458,448	266,930
Participant Contributions	-	-	-	-
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	(213,499,246)	(57,907,439)	(1,621)	(3,298)
Interest	41,221,748	11,235,735	254,354	231,837
Dividends	19,406,723	5,240,307	-	-
Less: Investment Expenses	(2,382,625)	(679,153)	(10,047)	(14,206)
Net Investment Income	(155,253,400)	(42,110,550)	242,686	214,333
Securities Lending Income				
Securities Lending Income	3,029,643	797,640	-	-
Less: Costs of Lending Securities	(2,835,218)	(746,452)	-	-
Net Securities Lending Income	194,425	51,188	-	-
Charges For Services	1,465,831	384,503	5,410	3,046
Transfers from Other Pension Plans	62,568	264,982	226	127
Transfers from Dependent Care				
Administrative Fund	-	-	-	-
Miscellaneous	44,599	11,699	165	93
TOTAL ADDITIONS	(74,452,805)	(40,152,767)	6,706,935	484,529
DEDUCTIONS				
Benefits	2,742,712	22,315,700	8,059,875	655,914
Refunds of Contributions	9,142,897	199,115	-	-
Annuity Payments	-	-	-	-
Transfers to Other Pension Plans	109,172	16,067	226	127
Administrative Expenses	1,477,268	398,141	5,410	3,046
TOTAL DEDUCTIONS	13,472,049	22,929,023	8,065,511	659,087
NET INCREASE (DECREASE)	(87,924,854)	(63,081,790)	(1,358,576)	(174,558)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1, As Restated	2,359,628,902	658,990,105	9,793,421	4,958,646
End of Year: June 30	\$ 2,271,704,048	\$ 595,908,315	\$ 8,434,845	\$ 4,784,088

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2002 (page 4 of 4)

	Pension Trust		Totals	
	JRA Defined Contribution	Deferred Compensation	June 30, 2002	June 30, 2001
ADDITIONS				
Retirement Contributions				
Employer	\$ 531,570	\$ -	\$ 261,552,771	\$ 559,913,029
Plan Member	531,570	-	401,198,031	476,514,647
State	-	-	21,800,761	28,668,699
Plan Member Restorations	-	-	10,902,071	4,563,331
Total Retirement Contributions	<u>1,063,140</u>	<u>-</u>	<u>695,453,634</u>	<u>1,069,659,706</u>
Participant Contributions	<u>-</u>	<u>119,008,453</u>	<u>119,008,453</u>	<u>107,255,940</u>
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	(1,198,873)	(194,884,950)	(4,067,694,453)	(4,312,708,108)
Interest	201,425	26,980,499	764,633,675	914,354,053
Dividends	89,472	16,514,373	358,317,081	438,298,519
Less: Investment Expenses	(12)	(1,820,129)	(47,449,719)	(38,133,807)
Net Investment Income	<u>(907,988)</u>	<u>(153,210,207)</u>	<u>(2,992,193,416)</u>	<u>(2,998,189,343)</u>
Securities Lending Income				
Securities Lending Income	-	-	52,101,919	109,347,760
Less: Costs of Lending Securities	-	-	(48,758,321)	(112,624,967)
Net Securities Lending Income	<u>-</u>	<u>-</u>	<u>3,343,598</u>	<u>(3,277,207)</u>
Charges For Services	-	1,408,600	28,936,114	28,869,784
Transfers from Other Pension Plans	-	-	51,071,951	2,386,890,902
Transfers from Dependent Care Administrative Fund	-	-	-	10,887
Miscellaneous	<u>8,878</u>	<u>991,794</u>	<u>1,783,790</u>	<u>1,286,892</u>
TOTAL ADDITIONS	<u>164,030</u>	<u>(31,801,360)</u>	<u>(2,092,595,876)</u>	<u>592,507,561</u>
DEDUCTIONS				
Benefits	205,982	-	1,644,734,171	1,521,762,304
Refunds of Contributions	-	77,602,182	175,061,572	151,937,115
Annuity Payments	-	-	110,878,457	108,422,331
Transfers to Other Pension Plans	-	-	51,071,951	2,386,890,902
Administrative Expenses	12,080	1,597,734	30,008,584	31,231,354
TOTAL DEDUCTIONS	<u>218,062</u>	<u>79,199,916</u>	<u>2,011,754,735</u>	<u>4,200,244,006</u>
NET INCREASE (DECREASE)	<u>(54,032)</u>	<u>(111,001,276)</u>	<u>(4,104,350,611)</u>	<u>(3,607,736,445)</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1, As Restated	<u>9,365,608</u>	<u>1,469,296,234</u>	<u>45,384,873,236</u>	<u>48,992,609,681</u>
End of Year: June 30	<u>\$ 9,311,576</u>	<u>\$ 1,358,294,958</u>	<u>\$ 41,280,522,625</u>	<u>\$ 45,384,873,236</u>

The accompanying notes are an integral part of this statement.

Balance Sheet/Statement of Net Assets
Special Revenue Fund
As of June 30, 2002

Dependent Care Administrative Fund			
	Balance Sheet	Adjustments	Statement of Net Assets
ASSETS			
Cash and Pooled Investments	\$ 87,236	\$ -	\$ 87,236
Other Receivables - Short Term	17	(1)	16
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	87,253	(1)	87,252
<hr/>			
LIABILITIES			
Accounts Payable	251	-	251
Due to Other Washington State Agencies	1,242	-	1,242
Accrued Salaries	4,543	-	4,543
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	6,036	-	6,036
<hr/>			
FUND BALANCE/NET ASSETS:			
Fund Balance:			
Unreserved, Reported in Special Revenue Funds	81,217	(81,217)	-
Total Fund Balance	81,217	(81,217)	-
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 87,253		
	<hr/>		
Net Assets:			
Unrestricted		81,216	81,216
		<hr/>	<hr/>
TOTAL NET ASSETS		\$ (1)	\$ 81,216
		<hr/>	<hr/>

The accompanying notes are an integral part of this statement.

**Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities
Special Revenue Fund
For the Year Ended June 30, 2002**

Dependent Care Administrative Fund			
REVENUES	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Charges for Services	\$ 186,528	\$ (1)	\$ 186,527
Miscellaneous	<u>2</u>	<u>-</u>	<u>2</u>
TOTAL REVENUES	186,530	(1)	186,529
EXPENDITURES/EXPENSES			
Current:			
Personnel Services	124,207	-	124,207
Goods and Services	46,710	-	46,710
Miscellaneous	<u>1,364</u>	<u>-</u>	<u>1,364</u>
Total Expenditures/Expenses	<u>172,281</u>	<u>-</u>	<u>172,281</u>
TOTAL EXPENDITURES/EXPENSES	172,281	-	172,281
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	14,249	(14,249)	-
CHANGE IN NET ASSETS	-	14,248	14,248
FUND BALANCE/NET ASSETS:			
Beginning of Year: July 1	<u>66,968</u>	<u>-</u>	<u>66,968</u>
End of Year: June 30	<u>\$ 81,217</u>	<u>\$ (1)</u>	<u>\$ 81,216</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2002

Note 1: Summary of Significant Accounting Policies and Plan Asset Matters

A. Reporting Entity

The Department of Retirement Systems (DRS) is a part of the primary government of the state of Washington. The Governmental Accounting Standards Board has developed criteria relating to elements of financial accountability to be used to determine the reporting entity. Financial accountability is manifest when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, or to set rates or charges without substantive approval by another government. Based on this criteria, DRS is considered part of the state of Washington financial reporting entity and is included in the state's comprehensive annual financial report as the administrator of the pension trust funds. Copies of the State of Washington's Comprehensive Annual Financial Report may be obtained by writing to:

Washington State Office of Financial Management
300 Insurance Building
P.O. Box 43113
Olympia, WA 98504-3113

The state of Washington, through DRS, administers seven retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement

System, the School Employees' Retirement System, the Teachers' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund. The Director of DRS is appointed by the Governor. The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The members of the public retirement systems together with their employers and the state provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels. Based upon these criteria, DRS views itself as part of the state of Washington's primary government.

B. Basic Financial Statements

Separate financial statements are provided for the fiduciary funds and the governmental fund.

Fiduciary funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. DRS' fiduciary funds include the retirement pension trust funds, the deferred compensation trust fund, and the dependent care assistance program agency fund. The statements presented for the fiduciary funds include a Statement of Plan Net Assets and a Statement of Changes in Plan Net Assets. The statements provide a separate column for each plan administered by DRS. The Statement of Plan Net Assets includes information about the assets, liabilities, and net assets for each plan. The Statement of Changes in Plan Net Assets includes information about the additions to, deductions from, and net increase (or decrease) for the year in net assets for each plan.

DRS' governmental fund is a special revenue fund used to account for the administrative revenues and operating expenditures incurred in administering the dependent care program. Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The statements presented for the special revenue fund include a Balance Sheet/Statement of Net Assets and a Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities. The statements for the special revenue fund are presented following the statements for the fiduciary funds because the fiduciary funds are the main focus of DRS. Since the special revenue fund is a minor administrative fund for DRS, showing this fund on a statement preceding the fiduciary fund statements would improperly put more focus on it.

The Balance Sheet/Statement of Net Assets for the special revenue fund has three separate columns: Balance Sheet, Adjustments, and Statement of Net Assets. The Balance Sheet column presents the assets, liabilities, and fund balance using the current financial resources measurement focus and the modified accrual basis of accounting. The Statement of Net Assets column presents the difference between assets and liabilities as net assets and uses the economic resources measurement focus and accrual basis of accounting. The Adjustments column contains the reconciliation between these two different basis of accounting.

The Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities for the special revenue fund has three separate columns: Statement of Revenues, Expenditures, and Changes in Fund Balance; Adjustments; and Statement of Activities. The Statement of Revenues, Expenditures, and Changes in Fund Balance column presents the inflows, outflows, and balances of current financial resources using the current financial resources measurement focus and the modified accrual basis of accounting. The Statement of Activities is presented using the economic resources measurement focus and accrual basis of accounting. The Adjustments column contains the reconciliation between these two different basis of accounting.

C. Measurement Focus and Basis of Accounting

DRS' financial statements have been prepared in conformity with generally accepted accounting principles (GAAP).

The retirement plans are accounted for in pension trust funds using the flow of economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized as revenues in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The deferred compensation plan is accounted for in a pension trust fund using the flow of economic resources measurement focus and the accrual basis of accounting. Participant contributions are recognized as revenues in the period in which the contributions are due. Refunds are recognized when due and payable in accordance with the terms of the plan. DRS maintains an administrative fund to account for the administrative revenues and operating expenditures incurred in administering the deferred compensation plan. Since these costs are incurred in the administration of the deferred compensation plan, they have been reported within the deferred compensation plan.

The dependent care assistance program is accounted for in two separate funds using the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available to finance current expenditures of the fund. The administrative revenues and operating expenditures incurred in administering the dependent care program are accounted for in the dependent care administrative fund classified as a special revenue fund using the flow of current financial resources measurement focus. The dependent care salary reduction plan is accounted for through an agency fund. Agency funds are custodial in nature and do not measure the results of operations or have a measurement focus.

D. Method Used to Value Investments

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Venture capital and leveraged buy out investments are determined by independent investment advisors based on an analysis of the audited financial statements of the underlying partnerships. The pension funds have no investments of any commercial or industrial organization whose market value exceeds five percent or more of each plan's net assets.

E. Allocation

DRS maintains an administrative fund to account for the administrative additions and deductions incurred in administering the pension plans (excluding any fees incurred while protecting the pension plans). All additions received are based on a legislatively approved percent of employer contributions. These additions and deductions have been allocated to the pension plans based on asset balance.

DRS maintains a general capital assets fund to account for the capital assets incurred in administering the pension plans. These capital assets have been allocated to the pension plans based on asset balance. DRS also maintains a general long-term obligation fund to account for accumulated compensated absences incurred in administering the pension plans. These general long-term obligations have also been allocated to the pension plans based on asset balance.

F. Deposits, Investments, and Securities Lending:

Deposits: DRS' deposits are managed by the Office of the State Treasurer (OST) and are entirely insured by the Federal Deposit Insurance Corporation (FDIC) and by the Washington Public Deposit Protection Commission (PDPC). State law (chapter 43.84.080 RCW) specifies that whenever there is a fund or cash balance in the state treasury more than sufficient to meet the current expenditures properly payable therefrom, the OST may invest or reinvest such portion of

such funds or balances as the OST deems expedient. Statute authorizes the OST to buy and sell the following types of instruments: U.S. Government and Agency securities, banker's acceptances, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above. DRS receives its proportionate share of investment earnings from surplus balances in the state treasury based upon its daily balance for the period. DRS' deposits are separately displayed on the Statement of Plan Net Assets as cash and pooled investments.

Governmental Accounting Standards Board (GASB) Statement Number 3 requires governmental entities to categorize deposits for the purpose of giving an indication of the level of risk assumed by the entity at year end. The three categories of risk are:

- 1) Insured or collateralized with securities held by DRS or its agent in the name of DRS.
- 2) Collateralized with securities held by the pledging financial institutions trust department or agent in the name of DRS.
- 3) Uncollateralized or collateralized with securities held by the pledging financial institutions or by its trust department or agent, but not in the name of DRS.

As of June 30, 2002, the carrying amount of DRS' cash and pooled investments is \$39,383,240 for the pension trust funds, \$462,393 for the dependent care agency fund, and \$87,236 for the dependent care special revenue fund, all of which represents category one risk.

Investments: The State Investment Board (SIB) has been authorized by statute as having the investment management responsibility for pension and deferred compensation funds. The SIB is authorized to invest as provided by statute (chapter 43.33A RCW) and SIB policy. The SIB is authorized and invests in the following: Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government

sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to: investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

SIB is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. SIB mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the SIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2002 or 2001. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use, and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2002, the only derivative securities held directly by SIB were collateralized mortgage obligations of \$2.074 billion.

The fees paid by the SIB are accounted for as a reduction of investment income to the trust funds. These fees include investment management fees and commissions, investment consultant fees, and legal fees. As of June 30, 2002, total investment management fees were \$96,208,040. For a detailed disclosure, refer to the Schedule of Investment Management Fees and Commissions in the Investment Section of this report.

GASB Statement Number 3 requires governmental entities to categorize investments for the purpose of giving an indication of the levels of risk assumed by the entity at year end. The three categories of risk are:

- 1) Insured or registered, or securities held by DRS or its agent in the name of DRS.
- 2) Uninsured and unregistered with securities held by the counterparty's trust department or agent in the name of DRS.
- 3) Uninsured and unregistered with securities held by the counterparty, or its trust department or agent, but not in the name of DRS.

Certain investment types in DRS' portfolio cannot be categorized within the guidelines established by GASB Statement Number 3. These investments total approximately \$31.4 billion in both carrying value and fair value. DRS' investments are classified in three categories of risk to give an indication of the level of risk assumed by DRS as of year end. The table on page 49 presents the carrying value and fair value of the investments by type, as well as deposits, as of June 30, 2002.

There were approximately \$627 million in repurchase agreements outstanding at June 30, 2002. Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by DRS' agent in DRS' name. Repurchase agreements outstanding as of June 30, 2002 are typical of the level of activity during the year.

State law permits DRS to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default

on their obligations to resell these securities to the state or provide securities or cash of equal value, DRS would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2002.

Investments by Type on June 30, 2002-Pension Trust Funds

Investment Type	Carrying Value by GASB Categories*			Total Carrying Value	Total Fair Value
	1	2	3		
Asset Backed Securities	\$ 155,902,587	\$ -	\$ 352,517,291	\$ 508,419,878	\$ 508,419,878
Certificates of Deposit	-	-	1,007,652,639	1,007,652,639	1,007,652,639
Collateralized Mortgage Obligations	2,074,027,732	-	-	2,074,027,732	2,074,027,732
Commercial Paper	-	-	192,618,070	192,618,070	192,618,070
Corporate Bonds-Domestic	3,478,603,112	-	-	3,478,603,112	3,478,603,112
Corporate Bonds-Foreign	971,609,945	-	-	971,609,945	971,609,945
Corporate Stock-Foreign	2,077,920,923	-	-	2,077,920,923	2,077,920,923
Government Securities-Domestic	761,303,744	-	-	761,303,744	761,303,744
Government Securities-Foreign	131,112,520	-	-	131,112,520	131,112,520
Life	26,475	-	-	26,475	26,475
Municipal Bonds	15,438,535	-	-	15,438,535	15,438,535
Repurchase Agreements	7,004,562	-	619,961,045	626,965,607	626,965,607
Variable Rate Notes	-	-	819,748,707	819,748,707	819,748,707
Subtotal for GASB Categories	\$ 9,672,950,135	\$ -	\$2,992,497,752	12,665,447,887	12,665,447,887
Investment Type-Unclassified As to Risk					
Commingled Index Funds-Domestic				12,943,053,758	12,943,053,758
Commingled Index Funds-Foreign				3,242,998,994	3,242,998,994
Currencies				11,516,385	11,516,385
Guaranteed Investment Contracts				467,505,741	467,505,741
Money Market Funds				804,191,771	804,191,771
Mortgages				459,868,270	459,868,270
Mutual Funds				1,829,857,534	1,829,857,534
Private Equity				5,111,791,834	5,111,791,834
Real Estate				3,592,260,743	3,592,260,743
Subtotal Investment Types-Unclassified As to Risk				28,463,045,030	28,463,045,030
Securities on Loan-Domestic				2,525,422,198	2,525,422,198
Securities on Loan-Foreign				439,383,849	439,383,849
Total Investments-6/30/2002				\$44,093,298,964	\$44,093,298,964

* See text for definition of categories.

The SIB has entered into agreements that commit the DRS pension funds, upon request, to make additional investment purchases up to a stated amount. As of June 30, 2002, the DRS pension funds had the following unfunded investment commitments:

Private Equity Partnerships	\$5,743,628,706
Real Estate	917,494,776

Securities Lending: Securities lending management responsibilities as authorized by statute are as follows:

SIB—State law and Board policy permit the SIB to participate in securities lending transactions. The Board has entered into an agreement with State Street Bank and Trust to act as agent for the SIB in securities lending transactions. As State Street Bank and Trust is the custodian bank for the SIB, it is a counterparty to securities lending transactions. Therefore, cash collateral reinvested by State Street Bank and Trust is reflected as Category 3 for custodial credit risk disclosure purposes.

Securities were loaned and collateralized by the SIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, where securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2002, were \$3,025,331,315 and \$2,964,806,047 respectively.

During Fiscal Year 2002, securities lending transactions could be terminated on demand by either the SIB or the borrower. The average term of overall loans was 49 days.

Cash collateral was invested by the SIB's agents in securities

issued or guaranteed by the U.S. government, the SIB's short term investment pool (average weighted maturity of 162 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Bank and Trust indemnified the SIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Bank and Trust's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2002, there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the SIB incurred no losses during Fiscal Year 2002 resulting from a default by either the borrowers or the securities lending agents.

OST—Statute authorizes the OST to buy and sell the following types of instruments: U.S. government and agency securities, banker's acceptances, commercial paper, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above.

The OST has statutory authority to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST has contracted with a third party securities lending agent, The Bank of New York, to lend the OST's U.S. government and agency securities portfolio. The agent lends securities for collateral in the form of cash or other securities at 102 percent of the loaned securities value. The collateral for the loans is maintained at 102 percent.

At June 30, 2002, OST has no credit risk exposure to borrowers because the amounts the OST owes borrowers exceeds the amounts that the borrowers owe the OST. The contract with the agent requires it to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay OST for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the OST or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by the OST. The OST cannot pledge or sell collateral securities received unless the borrower defaults. Generally, the maturity of the securities on loan is matched with the term of the investment of the cash collateral.

During Fiscal Year 2002, there were no violations of legal or contractual provisions nor any losses resulting from a default by either the borrowers or the securities lending agent.

G. Reserves

Member Reserves: The member reserves reflect the total liability for all contributions made by members. These reserves are increased by employee contributions and interest earnings and are decreased by contributions refunded and contributions transferred to the benefit reserves for current year retirees. The member reserves are considered fully funded.

Because the PERS Plan 3, SERS Plan 3 and TRS Plan 3 defined contribution plans each offer two separate investment programs to members, DRS is required to maintain two separate member reserves for each defined contribution plan. The "PERS Plan 3—WSIB," "SERS Plan 3—WSIB," and "TRS Plan 3—WSIB" reserves account for members who participate in the investment programs offered by the Washington State Investment Board (WSIB). The "PERS Plan 3—SELF," "SERS Plan 3—SELF," and "TRS Plan 3—SELF" reserves account for members who participate in the self directed investment offerings established by the Employee Retirement Benefits Board (ERBB).

Member reserves as of June 30, 2002 and 2001 are as follows:

	June 30, 2002	June 30, 2001
PERS Plan 1	\$1,642,675,506	\$1,678,659,981
PERS Plan 2/3	3,280,230,372	3,197,499,899
PERS Plan 3-WSIB	12,705,763	-
PERS Plan 3-SELF	16,346,320	-
SERS Plan 2/3	194,973,586	169,370,119
SERS Plan 3-WSIB	336,630,522	350,672,279
SERS Plan 3-SELF	143,324,649	142,849,138
TRS Plan 1	1,298,004,992	1,368,960,029
TRS Plan 2/3	361,538,710	348,451,733
TRS Plan 3-WSIB	852,005,852	824,526,936
TRS Plan 3-SELF	788,505,769	818,988,392
LEOFF Plan 1	128,930,276	142,667,910
LEOFF Plan 2	758,091,553	691,215,224
WSPRS Plan 1	52,430,387	50,732,585
JRS	5,449,063	5,313,407
Total Member Reserves	\$9,871,843,320	\$9,789,907,632

Benefit Reserves: The benefit reserves reflect the funded liability associated with all retired members of DRS administered systems. These reserves are increased by employer contributions, state contributions, investment earnings, and employee contributions which are attributable to current year retirees. These reserves are decreased by the amounts of pensions actually paid in the current year, interest payments transferred to the member reserves, and administrative expenses in support of the trust funds.

Benefit reserves as of June 30, 2002 and 2001 are as follows:

	June 30, 2002	June 30, 2001
PERS Plan 1	\$7,342,270,804	\$8,535,833,935
PERS Plan 2/3	6,190,218,636	6,962,662,936
SERS Plan 2/3	1,047,662,601	1,134,791,699
TRS Plan 1	6,381,290,304	7,428,875,038
TRS Plan 2/3	2,716,643,539	2,916,800,680
LEOFF Plan 1	4,289,514,579	4,843,477,111
LEOFF Plan 2	1,513,166,215	1,668,008,180
WSPRS Plan 1	543,331,820	608,122,839
JRS	2,981,247	4,474,023
Judges	4,746,564	4,917,917
Total Benefit Reserves	\$30,031,826,309	\$34,107,964,358

The funded status of each of the benefit reserves is the same as the funded status of each of the respective pension plans. The funded status of the pension plans is shown in the Solvency Test schedules in the Actuarial Section of this report.

H. Capital Assets

All capital assets with a unit cost (including ancillary costs) of \$5,000 or greater are capitalized and reported in the accompanying financial statements. Capital leases with a net present value or fair market value, whichever is less, of \$10,000 or more are capitalized and also included in these financial statements. All purchased capital assets are valued at cost where historical records exist. Donated capital assets are valued at their estimated fair market value on the date of donation. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

Capital asset costs include the purchase price or construction cost, plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Depreciation is calculated using the straight-line method with estimated useful lives of 5 to 50 years for buildings, and 3 to 50 years for furnishings and equipment, other improvements, and miscellaneous capital assets.

Following is a summary of changes in capital assets for Fiscal Year 2002:

Assets	Beginning Balance	Acquisition/ Increase Depreciation	Disposal	Ending Balance
Improvements Other Than Buildings	\$ 509,403	\$ 12,710	\$ -	\$522,113
Furnishings & Equipment	1,946,495	30,053	(23,683)	1,952,865
Accumulated Depreciation	(599,760)	(431,653)	45,939	(985,474)
Total	\$ 1,856,138	\$ (388,890)	\$22,256	\$ 1,489,504

I. Long-Term Liabilities

Annual Leave: DRS employees accrue annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date. The expense and accrued liability is recognized when the annual leave is earned. DRS' liability for accumulated annual leave was \$932,498 as of June 30, 2002.

Sick Leave: Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the department does not pay employees for unused sick leave upon termination except upon employee death or retirement, at which time DRS is liable for 25 percent of the employee's accumulated sick leave. In addition, the department has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the

rate of one day's pay in exchange for each four days of sick leave. The expense and accrued liability is recognized when the sick leave is earned. DRS' liability for accumulated sick leave was \$324,634 as of June 30, 2002.

Following is a summary of changes in compensated absences for the fiduciary funds for Fiscal Year 2002:

Compensated Absences	Beginning Balance	Additions	Deletions	Ending Balance
Annual Leave	\$949,543	\$100,951	\$(117,996)	\$932,498
Sick Leave	311,859	587,567	(574,792)	324,634
Total	\$1,261,402	\$688,518	\$(692,788)	\$1,257,132

J. Financial Statement Formatting

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. The information for the prior year is presented for comparative purposes only. It is not intended to be a complete financial presentation.

K. Accounting and Reporting Changes

Changes Not Affecting Net Assets: During Fiscal Year 2002, DRS implemented several new accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
- Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*
- Statement No. 38, *Certain Financial Statement Note Disclosures*

Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. Statement No. 34 had no monetary impact on the financial statements of DRS, but does require additional disclosure. As a result of the implementation of Statement No. 34, the Management's Discussion and Analysis has been included as required supplementary information and precedes the financial statements.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented.

Changes Affecting Net Assets: DRS recorded a prior period adjustment in the TRS Plan 3 and SERS Plan 3 trust funds. The adjustments to contributions, of \$11,290,622 and \$2,733,635 respectively, increase net assets at the beginning of the year by contributions receivable at the prior year-end. Had contributions receivable been recorded for Fiscal Year 2001, plan additions would have been increased by \$2,904,003 and \$2,733,635 for TRS Plan 3 and SERS Plan 3, respectively.

Net Assets Held in Trust for Pension and Other Benefits at June 30, 2001 have been restated as follows:

	Net Assets at July 1, 2001 As Previously Reported	Prior Period Adjustment	Net Assets As Restated July 1, 2001
TRS Plan 3	\$1,632,049,706	\$11,290,622	\$1,643,340,328
SERS Plan 3	\$ 490,472,211	\$ 2,733,635	\$ 493,205,846

Note 2: General Description of the Retirement Systems

A. General

The Department of Retirement Systems (DRS) administers seven retirement systems covering eligible employees of the state and local governments. The major systems are: the Public Employees' Retirement System (PERS), the School Employees' Retirement System (SERS), the Teachers' Retirement System (TRS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), and the Washington State Patrol Retirement System (WSPRS). The other systems are: the Judicial Retirement System (JRS) and the Judges' Retirement Fund (Judges). The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems, and the Governor appoints the Director of DRS to manage the systems. Information pertinent to each system is provided later in this section.

As established in the Revised Code of Washington (RCW) chapter 41.50, DRS administers seven retirement systems comprising 10 defined benefit pension plans and three combination defined benefit/defined contribution plans as follows:

Public Employees' Retirement System (PERS)

Plan 1—defined benefit

Plan 2—defined benefit

Plan 3—defined benefit/defined contribution

School Employees' Retirement System (SERS)

Plan 2—defined benefit

Plan 3—defined benefit/defined contribution

Teachers' Retirement System (TRS)

Plan 1—defined benefit

Plan 2—defined benefit

Plan 3—defined benefit/defined contribution

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Plan 1—defined benefit

Plan 2—defined benefit

Washington State Patrol Retirement System (WSPRS)

Plan 1—defined benefit

Judicial Retirement System (JRS)

Defined benefit

Judges' Retirement Fund (Judges)

Defined benefit

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan in accordance with the terms of the plan.

Administration of the PERS, SERS, TRS, and LEOFF systems and plans was funded by an employer rate of .23 percent of employee salaries for the period of July 1, 2001 through April 30, 2002. This employer rate decreased to .22 percent as of May 1, 2002. Administration of the WSPRS, JRS, and Judges' plans is funded by means of legislative appropriations.

Number of Participating Members

Plan	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled to But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total
PERS Plan 1	53,538	3,310	22,226	1,755	80,829
PERS Plan 2	8,651	15,102	75,551	53,404	152,708
SERS Plan 2	191	929	12,719	11,344	25,183
SERS Plan 3	78	637	12,566	11,718	24,999
TRS Plan 1	32,195	1,995	13,594	377	48,161
TRS Plan 2	709	2,342	7,188	868	11,107
TRS Plan 3	203	1,730	15,772	28,421	46,126
LEOFF Plan 1	7,894	29	1,312	3	9,238
LEOFF Plan 2	184	303	9,582	4,003	14,072
WSPRS Plan 1	696	89	768	259	1,812
JRS	134	3	26	-	163
Judges	18	-	1	-	19
Total	104,491	26,469	171,305	112,152	414,417

The latest actuarial valuation date for all plans was September 30, 2001.

PERS Plan 3 became effective for state and higher education employees on March 1, 2002, therefore there were no PERS Plan 3 members as of the latest actuarial valuation date of September 30, 2001.

Source: Washington State Office of the State Actuary

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/Municipalities	Other Political Subdivisions	Total
PERS Plan 1	156	248	216	255	875
PERS Plan 2	169	2	268	446	885
PERS Plan 3	118	-	-	-	118
SERS Plan 2	9	290	-	-	299
SERS Plan 3	10	287	-	-	297
TRS Plan 1	87	288	-	-	375
TRS Plan 2	40	267	-	-	307
TRS Plan 3	45	291	-	-	336
LEOFF Plan 1	-	-	113	26	139
LEOFF Plan 2	7	-	225	127	359
WSPRS Plan 1	1	-	-	-	1
JRS	3	-	-	-	3
Judges	1	-	-	-	1
Total	646	1,673	822	854	3,995

Employers can participate in multiple systems and/or plans. The actual total number of participating employers as of June 30, 2002 is 1,258.

For a listing of the covered employers, refer to the Statistical Section of this report.

B. Plan Descriptions

Public Employees' Retirement System (PERS): PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2002, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. TIAA/CREF is not administered by DRS. Approximately 52 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section D of Note 2 for a description of the defined contribution component of PERS Plan 3.

Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC.

Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2001 session provides a \$150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service,

if found eligible by the Department of Labor and Industries. This legislation is effective for the period of July 1, 2001 through June 30, 2003.

Legislation passed in the 2002 session gives commercial vehicle enforcement officers (CVEO) who became commissioned officers in the Washington State Patrol after July 1, 2000, and prior to June 30, 2001, the option of either remaining a member of PERS Plan 2 or to make an irrevocable choice to transfer their CVEO credit to the Washington State Patrol Retirement System. Those members who transfer service credit would have until December 31, 2010, or the date of retirement (whichever came first) to pay for the difference in employee and employer contributions plus interest. There were no other material changes in PERS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 41.40 RCW.

School Employees' Retirement System (SERS): SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977 and by August 31, 2000 are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

SERS is comprised of two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or

beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2002, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

Membership in the system includes all classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest

compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to September 1, 2000. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section D of Note 2 for a description of the defined contribution component of SERS Plan 3.

Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2001 session provides a \$150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries. This legislation is effective for the period of July 1, 2001 through June 30, 2003. There were no other material changes in SERS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 41.35 RCW.

Teachers' Retirement System (TRS): TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by June 30, 1996 are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2002, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated employee in grades K-12 in the public schools. TRS is comprised principally of non-state employees. TRS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes 5 years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in TRS Plan 2 by July 1, 1996 and transferred to Plan 3. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section D of Note 2 for a description of the defined contribution component of TRS Plan 3.

Plan 1 provides death and duty disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-\$400 (if at least 10 years of membership service), active members-\$600. Members on temporary disability receive a temporary life annuity of \$180 per month payable up to two years. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3, the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2001 session provides a \$150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries. This legislation is effective for the period of July 1, 2001 through June 30, 2003. There were no other material changes in TRS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapters 41.32 and 41.34 RCW.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF): LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2002, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees. LEOFF retirement benefit provisions are established in state statute and

may be amended only by the state Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10 - 19	1.5%
5 - 9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of \$150,000 is provided to Plan 1 and Plan 2 members.

The Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

Plan 2 provides non-duty disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, and to reflect the choice of a survivor option.

There were no material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS): WSPRS is a single-employer retirement system comprised of one defined benefit plan. WSPRS participants who join the system by December 31, 2002 are Plan 1 members.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the WSPRS defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2002, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

Retirement benefits are vested after an employee completes

five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of average final salary (AFS) per year of service (AFS is based on the average of the two highest-paid years), capped at 75 percent.

Benefit provisions include death benefits; however, the system contains no disability benefits. Death benefits for members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of \$150,000 is provided to WSPRS members.

Legislation passed in the 2001 session created a Washington State Patrol Plan 2 for employees commissioned on or after January 1, 2003. Existing WSPRS members would receive an adjustment to their contribution rate and their COLA, and a change in how some overtime is considered as salary. Current retirees, who retired before June 30, 2000, will receive the new COLA (CPI-based up to 3%) on July 1, 2001 and every year thereafter. A member who retired between July 1, 2000 and June 30, 2001 received a 2% COLA on July 1, 2001, and a new COLA (CPI-based up to 3%) on July 1, 2002 and every year after. A member who retires after July 1, 2001 will receive the 3% COLA on the next July 1, after being a retiree for one year. The definition of "average final salary" for new members is changed from a two-year average to a five-year average. For existing members, the definition of "salary" is amended to prospectively exclude voluntary overtime. For new members, the definition is amended to exclude both voluntary overtime and cash-outs of annual leave and holiday leave.

Legislation passed in the 2002 session gives commercial vehicle enforcement officers (CVEO) who became commissioned officers in the Washington State Patrol after July 1, 2000, and prior to June 30, 2001, the option of either remaining a member of PERS Plan 2 or to make an irrevocable

choice to transfer their CVEO credit to the Washington State Patrol Retirement System. Those members who transfer service credit would have until December 31, 2010, or the date of retirement (whichever came first) to pay for the difference in employee and employer contributions plus interest. There were no other material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 43.43 RCW.

Judicial Retirement System (JRS): JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions. JRS employees accrue no interest on contributions and may not elect to withdraw their contributions upon termination.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is as follows:

Term of Service	Percent of AFC
15+	3.5%
10 - 14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 2.10 RCW.

Judges' Retirement Fund: The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of employee contributions, employer contributions, and a special funding situation in which the state pays the remaining contributions. Employees do not earn interest on their contributions, nor can they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the

end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no material changes in Judges' benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 2.12 RCW.

C. Funding Policy

PERS: Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2002 were as follows:

PERS Actual Contribution Rates			
	Plan 1	Plan 2	Plan 3
Employer Rates:			
State Agencies*	1.32%	1.32%	1.32% **
Local Governmental Units*	1.32%	1.32%	1.32% **
State Government Elected Officials*	1.87%	1.32%	1.32% **
Employee Rates:			
State Agencies	6.00%	0.65%	***
Local Governmental Units	6.00%	0.65%	***
State Government Elected Officials	7.50%	0.65%	***

*Includes an administrative expense rate of 0.22 percent.

**Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

SERS: Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. SERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of SERS Plan 3 do not contribute to the defined benefit portion of SERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2002 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State Agencies*	1.18%	1.18% **
Local Governmental Units*	1.18%	1.18% **
Employee Rates:		
State Agencies	0.35%	***
Local Governmental Units	0.35%	***

*Includes an administrative expense rate of 0.22 percent.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

TRS: Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. TRS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of TRS Plan 3 do not contribute to the defined benefit portion of TRS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2002 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates*	1.27%	1.27%	1.27% **
Employee Rates:			
State Agencies	6.00%	0.15%	***
Local Governmental Units	6.00%	0.15%	***
State Government Elected Officials	7.50%	0.15%	***

*Includes an administrative expense rate of 0.22 percent.

**Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

LEOFF: Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by DRS in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2002 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Cities, Counties, Fire Districts, etc.*	0.22%	2.86%
Ports and Universities*	n/a	4.61%
Employee Rates:		
Cities, Counties, Fire Districts, etc.	--	4.39%
Ports and Universities	n/a	4.39%
State of Washington Contributions	n/a	1.75%

*Includes an administrative expense rate of 0.22 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2002, the state contributed \$15,550,761 to LEOFF Plan 2.

WSPRS: State statute (chapter 43.43 RCW) obligates employees to contribute at a fixed rate of 2 percent for Fiscal Year 2002. Contribution rates for the employee and the state are adopted by the Pension Funding Council as per chapter 41.45 RCW. The employee and the state are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2002 were as follows:

WSPRS Actual Contribution Rates	
Employer Rate	--
Employee Rate	2.00%

JRS: Contributions made are based on rates set in 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2002, the state contributed \$6,000,000.

Judges: Contributions made are based on rates set in 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement fund on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2002, the state contributed \$250,000.

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3: The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university

employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. As of June 30, 2002, there are 118 participating employers in PERS Plan 3. See section B of Note 2 for PERS plan descriptions.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.40, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

There were no PERS Plan 3 members as of the latest actuarial valuation date of September 30, 2001.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2002, employee contributions required and made were \$1,304,630, and plan refunds paid out were \$6,318.

School Employees' Retirement System Plan 3: The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligible employees include classified employees of school districts and educational service districts who were SERS Plan 2 members on or after September 1, 2000, and who elect to transfer. As of June 30, 2002, there are 297 participating employers in SERS Plan 3. See section B of Note 2 for SERS plan descriptions.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.35, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

Membership in SERS Plan 3 consisted of the following as of the latest actuarial valuation date of September 30, 2001:

Retirees and Beneficiaries Receiving Benefits	78
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	637
Active Plan Members Vested	12,566
Active Plan Members Nonvested	<u>11,718</u>
Total	24,999

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2002, employee contributions required and made were \$37,181,152, and plan refunds paid out were \$10,871,268.

Teachers' Retirement System Plan 3:

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligible employees include certificated employees in grades K-12 in the public schools. TRS participants who joined on or after October 1, 1977 and by June 30, 1996 are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. As of June 30, 2002, there are 336 participating employers in TRS Plan 3. See section B of Note 2 for TRS plan descriptions.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.34, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

Membership in TRS Plan 3 consisted of the following as of the latest actuarial valuation date of September 30, 2001:

Retirees and Beneficiaries Receiving Benefits	203
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	1,730
Active Plan Members Vested	15,772
Active Plan Members Nonvested	<u>28,421</u>
Total	46,126

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent

a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2002, employee contributions required and made were \$144,186,865, and plan refunds paid out were \$18,395,065.

Judicial Retirement Account:

The Judicial Retirement Account (JRA) was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state of Washington Administrative Office of the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the PERS for their services as a judge. Vesting is full and immediate. At June 30, 2002, there were 180 active members and 11 inactive members in JRA. There are three participating employers in JRA.

Plan members are required to contribute 2.5 percent of covered salary. The state, as employer, shall contribute an equal amount on a monthly basis. Contributions are collected by the Administrator for the Courts. The employer and employee obligations to contribute are established per RCW 2.14. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to such a person or persons having an insurable interest in the member's life, per written designation of the member.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the State Investment Board (SIB) for investment services. DRS shall be responsible for all record keeping, accounting, and reporting

of member accounts. The SIB shall have the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

E. Deferred Compensation Plan

The state of Washington offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation plan pursuant to RCW 41.50.770, in accordance with Internal Revenue Code section 457. Under the plan, eligible employees elect to defer a portion of their salary until future time periods. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation plan is administered by DRS.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, shall be held in trust by the Washington State Investment Board (SIB), as set forth under RCW 43.33A.030, for the exclusive benefit of the state deferred compensation plan's participants and their beneficiaries. Neither the participant, nor the participant's beneficiary or beneficiaries, nor any other designee, has any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments under the plan. These payments and rights thereto are nonassignable and nontransferable.

Employees participating in the state deferred compensation plan administered by DRS shall self-direct the investment of the deferred portion of their income through the selection of investment options. These options are provided by the SIB after consultation with the employee retirement benefits board. The SIB has the full power to invest moneys in the state deferred compensation plan in accordance with RCW 43.84.150, 43.33A.140, and 41.50.770. Pursuant to RCW 41.50.770, no state board, commission, agency, or any officer, employee or member thereof is liable for any loss or deficiency resulting from participant investments selected, or from reasonable efforts to implement investment directions.

The deferred compensation plan offers a stable principal Savings Pool and eleven other diversified investment options. The investment options consist of the following:

- Calvert Social Investment Fund-Balanced Portfolio;
- Fidelity Equity-Income Fund;
- Fidelity Growth Company Fund;
- Fidelity Independence Fund;
- Fidelity Intermediate Bond Fund;
- Fidelity Overseas Fund;
- U.S. Stock Market Index Fund;
- Washington State Bond Fund;
- Washington State Long-Horizon Fund;
- Washington State Mid-Horizon Fund; and
- Washington State Short-Horizon Fund.

More detailed information and discussion regarding investment strategies and an overview of investments in general can be obtained by contacting DRS.

F. Dependent Care Assistance Program

The state of Washington offers its employees a dependent care assistance program pursuant to RCW 41.04.600, in accordance with Internal Revenue Code Section 129. Under the program, eligible employees elect to reduce their taxable salary (before federal income and social security taxes) by amounts paid or incurred by the employer for dependent care assistance provided to the employee. This dependent care assistance program is administered by DRS.

Participation requires the employee to estimate the amount of dependent care expense he/she expects to incur during the plan year. The amount of salary reduction elected should not exceed those expenses. The reductions are taken in equal amounts each regular pay period and deposited into a dependent care account. Eligible expenses are charges for care of a qualifying person inside or outside the employee's home which enable the employee to work. If the eligible employee is married, the expenses must also occur while the employee's spouse is employed (or if the employee's spouse is a full-time student, on days the spouse attends school.) Qualifying persons are as follows:

- Children under age 13 who qualify as IRS dependents;
- Any other IRS dependent who is physically and/or mentally incapable of self-care; or
- A spouse who is physically or mentally incapable of self-care.

Every action taken by DRS in administering the dependent care assistance program shall be presumed to be a fair and reasonable exercise of the authority vested in or the duties imposed upon it. DRS shall be presumed to have exercised reasonable care, diligence, and prudence and to have acted impartially as to all persons interested unless the contrary be proved by clear and convincing affirmative evidence.

Required Supplementary Information

Schedule of Funding Progress: PERS Plan 1

	(dollars in millions)					
	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/01	12/31/00	12/31/99	12/31/98	12/31/97	12/31/96
Actuarial Value of Plan Assets	\$10,990	\$11,111	\$10,456	\$9,219	\$8,211	\$7,197
Actuarial Accrued Liability	\$12,088	\$11,695	\$11,636	\$11,227	\$10,817	\$10,339
Unfunded Actuarial Liability	\$1,098	\$584	\$1,180	\$2,008	\$2,606	\$3,142
Percentage Funded	91%	95%	90%	82%	76%	70%
Covered Payroll	\$1,085	\$1,132	\$1,184	\$1,233	\$1,271	\$1,308
Unfunded Actuarial Liability as a Percentage of Covered Payroll	101%	52%	100%	163%	205%	240%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: TRS Plan 1

	(dollars in millions)					
	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/01	6/30/00	6/30/99	6/30/98	6/30/97	6/30/96
Actuarial Value of Plan Assets	\$9,342	\$9,372	\$8,696	\$7,819	\$6,844	\$5,924
Actuarial Accrued Liability	\$9,895	\$9,566	\$9,529	\$9,354	\$9,044	\$8,796
Unfunded Actuarial Liability	\$553	\$194	\$833	\$1,535	\$2,200	\$2,872
Percentage Funded	94%	98%	91%	84%	76%	67%
Covered Payroll	\$800	\$957	\$984	\$1,046	\$1,083	\$1,128
Unfunded Actuarial Liability as a Percentage of Covered Payroll	69%	20%	85%	147%	203%	255%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: LEOFF Plan 1

	(dollars in millions)					
	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/01	12/31/00	12/31/99	12/31/98	12/31/97	12/31/96
Actuarial Value of Plan Assets	\$5,369	\$5,440	\$5,150	\$4,568	\$4,087	\$3,594
Actuarial Accrued Liability	\$4,153	\$4,002	\$4,125	\$3,906	\$3,767	\$4,006
Unfunded Actuarial Liability	\$(1,216)	\$(1,438)	\$(1,025)	\$(662)	\$(320)	\$412
Percentage Funded	129%	136%	125%	117%	108%	90%
Covered Payroll	\$87	\$95	\$106	\$117	\$128	\$137
Unfunded Actuarial Liability as a Percentage of Covered Payroll	(1,398)%	(1,513)%	(966)%	(566)%	(250)%	301%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: JRS

	(dollars in millions)					
	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/01	12/31/00	12/31/99	12/31/98	12/31/97	12/31/96
Actuarial Value of Plan Assets	\$10	\$10	\$9	\$8	\$5	\$4
Actuarial Accrued Liability	\$92	\$93	\$94	\$97	\$95	\$92
Unfunded Actuarial Liability	\$82	\$83	\$85	\$89	\$90	\$88
Percentage Funded	11%	11%	10%	8%	5%	4%
Covered Payroll	\$3	\$4	\$4	\$4	\$4	\$5
Unfunded Actuarial Liability as a Percentage of Covered Payroll	2,733%	2,075%	2,125%	2,225%	2,250%	1,760%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: Judges

	(dollars in millions)					
	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/01	12/31/00	12/31/99	12/31/98	12/31/97	12/31/96
Actuarial Value of Plan Assets	\$5	\$5	\$4	\$4	\$4	\$3
Actuarial Accrued Liability	\$6	\$6	\$6	\$7	\$7	\$7
Unfunded Actuarial Liability	\$1	\$1	\$2	\$3	\$3	\$4
Percentage Funded	83%	83%	67%	57%	57%	43%
Covered Payroll	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2	\$0.4
Unfunded Actuarial Liability as a Percentage of Covered Payroll	1,000%	1,000%	2,000%	3,000%	1,500%	1,000%

Source: Washington State Office of the State Actuary

Note on PERS Plan 2/3, SERS Plan 2/3, TRS Plan 2/3, LEOFF Plan 2, and WSPRS Plan 1: These plans use the aggregate actuarial cost method which does not separately amortize unfunded actuarial liabilities, therefore schedules of funding progress are not presented for these plans.

Schedule of Contributions from Employers and Other Contributing Entities

The following schedule covers the fiscal years ended 1997-2002.

	(dollars in millions)											
	Annual Required Contribution						Percentage Contributed					
	2002	2001	2000	1999	1998	1997	2002	2001	2000	1999	1998	1997
PERS Plan 1	\$ 164.3	\$ 118.8	\$ 199.2	\$ 237.6	\$ 287.2	\$ 355.0	42%	153%	101%	99%	79%	58%
PERS Plan 2/3	72.0	55.6	103.6	86.6	106.3	185.0	71%	207%	98%	275%	210%	121%
SERS Plan 2/3*	19.5	6.7	--	--	--	--	58%	297%	--	--	--	--
TRS Plan 1	119.8	90.6	176.1	209.7	269.7	338.0	50%	156%	104%	106%	78%	62%
TRS Plan 2/3	66.7	40.4	56.2	45.9	59.8	82.0	70%	172%	134%	218%	177%	126%
LEOFF Plan 1	--	--	6.3	6.9	7.5	75.2	n/a	n/a	100%	104%	101%	100%
LEOFF Plan 2	43.7	33.8	44.9	37.2	37.5	46.8	91%	155%	96%	152%	137%	99%
WSPRS Plan 1	--	--	--	--	--	0.5	n/a	n/a	n/a	n/a	n/a	1,360%
JRS	14.2	13.3	12.5	12.2	11.6	12.7	44%	55%	58%	72%	76%	54%
Judges	0.2	0.2	0.3	0.3	0.4	0.4	150%	400%	267%	267%	200%	200%

* SERS Plan 2/3 became effective on September 1, 2000

Source: Washington State Office of the State Actuary

Notes to the Required Supplementary Information

Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2002

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	SERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation - Date	9/30/2001	9/30/2001	9/30/2001	9/30/2001	9/30/2001
Actuarial Cost Method	entry age	aggregate**	aggregate**	entry age	aggregate**
Amortization Method					
Funding	level %	n/a	n/a	level %	n/a
GASB	level \$	n/a	n/a	level \$	n/a
Remaining Amortization Period (Closed)	6/30/2024	n/a	n/a	6/30/2024	n/a
Asset Valuation Method	4-year smoothed fair value	4-year smoothed fair value	4-year smoothed fair value	4-year smoothed fair value	4-year smoothed fair value
Actuarial Assumptions:					
Investment Rate of Return	8.00%	8.00%	8.00%	8.00%	8.00%
Projected Salary Increases					
Salary Inflation at 4.5%, Plus the Merit Increases Described Below:					
Initial Salary Merit (Grades Down to 0%)	6.1%	6.1%	7.0%	6.2%	6.2%
Merit Period (Years of Service)	17 yrs	17 yrs	17 yrs	17 yrs	17 yrs
Includes Inflation at Cost of Living Adjustments	3.50% * Uniform COLA* Gainsharing COLA*	3.50% CPI increase, maximum 3%	3.50% CPI increase, maximum 3%	3.50% * Uniform COLA* Gainsharing COLA*	3.50% CPI increase, maximum 3%

* Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year. The Uniform COLA increase is added every July. On 7/1/1999 it was \$0.77 per year of service. The Gainsharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved. In 1998 it was \$0.11. On 1/1/2000 it was \$0.28 per year of service. On 1/1/2002 it was \$0.00 per year of service. The next Uniform COLA amount is calculated as the last Uniform COLA amount plus any Gainsharing COLA amount, all increased by 3%. On 7/1/2000 it is $(\$0.77 + \$0.28) \times 1.03 = \$1.08$. On 7/1/2001 it is $(\$1.08 + \$0.00) \times 1.03 = \$1.11$. On 7/1/2002 it is $(\$1.11 + \$0.00) \times 1.03 = \$1.14$.

** The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

*** "Pay As You Go" for funding.

Source: Washington State Office of the State Actuary

LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1	Judicial	Judges
9/30/2001	9/30/2001	9/30/2001	9/30/2001	9/30/2001
entry age	aggregate**	aggregate**	entry age***	entry age***
level %	n/a	n/a	n/a	n/a
level \$	n/a	n/a	level \$	level \$
6/30/2024 4-year smoothed fair value	n/a 4-year smoothed fair value	n/a 4-year smoothed fair value	12/31/2008 market	12/31/2008 market
8.00%	8.00%	8.00%	8.00%	8.00%
11.7%	11.7%	6.0%	0.0%	0.0%
21 yrs	21 yrs	20 yrs	n/a	n/a
3.50% CPI increase	3.50% CPI increase, maximum 3%	3.50% CPI increase, maximum 3%	3.50% 3.00%	3.50% none

Supporting Schedules

Schedule of Administrative Expenses
For the Year Ended June 30, 2002

	Retirement Pension Trust Funds	Deferred Compensation Pension Trust Fund	Dependent Care Administrative Special Revenue Fund	Totals	
				June 30, 2002	June 30, 2001
Current					
Personnel:					
Salaries and Wages	\$11,092,910	\$835,637	\$100,537	\$12,029,084	\$10,960,115
Employee Benefits	2,475,531	190,290	23,670	2,689,491	2,697,425
Personal Service Contracts	2,739,646	93,267	-	2,832,913	1,823,669
Total Personnel Expenses	<u>16,308,087</u>	<u>1,119,194</u>	<u>124,207</u>	<u>17,551,488</u>	<u>15,481,209</u>
Goods and Services:					
Supplies and Materials	55,974	3,838	429	60,241	66,476
Communications	550,726	33,439	2,007	586,172	873,717
Utilities	83,582	5,367	671	89,620	91,419
Rental and Leases	1,070,531	68,408	8,538	1,147,477	981,055
Repairs and Alterations	59,013	1,058	121	60,192	35,591
Printing and Reproduction	487,533	71,928	7,230	566,691	541,731
Employee Professional Development and Training	127,533	2,641	146	130,320	191,359
Subscriptions	24,492	7,283	365	32,140	29,321
Facilities and Services	272,259	59,535	5,160	336,954	326,035
Data Processing Services	2,111,196	34,163	14,573	2,159,932	2,695,178
Attorney General Services	228,642	69,419	3,156	301,217	171,239
Personnel Services	49,789	4,377	547	54,713	47,766
Medical Consultant Services	73,214	-	-	73,214	82,991
Insurance	80,931	7,100	887	88,918	134,084
Other Contractual Services	3,356,620	45,807	433	3,402,860	3,875,261
Vehicle Maintenance	12,555	2,441	192	15,188	6,947
Actuary Services	979,057	-	-	979,057	988,135
Pension Funding Council Services	-	-	-	-	54,575
Audit Services	170,276	14,969	1,871	187,116	154,444
Archives and Records Management	28,176	30,074	310	58,560	44,742
Legal Fees	863,661	-	-	863,661	1,335,146
Bad Debts Expense	-	-	-	-	15
Fraudulent Collections	101,732	-	-	101,732	96,010
OWMBE Services	1,491	131	16	1,638	1,946
Other Goods and Services	16,295	328	58	16,681	24,820
Total Goods and Services	<u>10,805,278</u>	<u>462,306</u>	<u>46,710</u>	<u>11,314,294</u>	<u>12,850,003</u>
Miscellaneous Expenses:					
Travel	76,927	15,444	1,357	93,728	130,975
Noncapitalized Equipment	192,321	790	7	193,118	1,804,490
Grants, Benefits, and Client Services	-	-	-	-	11,083
Total Miscellaneous Expenses	<u>269,248</u>	<u>16,234</u>	<u>1,364</u>	<u>286,846</u>	<u>1,946,548</u>
Total Current Expenses	<u>27,382,613</u>	<u>1,597,734</u>	<u>172,281</u>	<u>29,152,628</u>	<u>30,277,760</u>
Capital Outlays:					
Furnishings, Equipment and Software	30,053	-	-	30,053	515,998
Improvements Other than Buildings	12,710	-	-	12,710	16,820
Total Capital Outlays	<u>42,763</u>	<u>-</u>	<u>-</u>	<u>42,763</u>	<u>532,818</u>
Depreciation - Capital Assets	<u>985,474</u>	<u>-</u>	<u>-</u>	<u>985,474</u>	<u>599,760</u>
Total Administrative Expenses	<u>\$28,410,850</u>	<u>\$1,597,734</u>	<u>\$172,281</u>	<u>\$30,180,865</u>	<u>\$31,410,338</u>

**Schedule of Investment Expenses
Pension Trust Funds
For the Year Ended June 30, 2002**

	Investment Management Expense
Public Equity Securities	
Passive Equity Managers	\$ 415,952
International Active Equity Managers	11,323,736
International Passive Equity Managers	2,122,114
Equity Commissions Paid	7,093,115
Total Public Equity Securities	<u>20,954,917</u>
Fixed Income Securities	
Commercial Mortgages	132,180
Total Fixed Income Securities	<u>132,180</u>
Alternative Investments	
Private Equity	15,336,126
Total Alternative Investments	<u>15,336,126</u>
Securities Lending	
Securities Lending Fees	7,337,144
Securities Lending Broker Rebates Paid	41,421,177
Total Securities Lending	<u>48,758,321</u>
Other Expenses	
Consultants and Advisors	1,772,773
Custodians	943,590
Legal Fees	207,731
PERS Plan 3 Management Fees	2,699
SERS Plan 3 Management Fees	227,874
TRS Plan 3 Management Fees	1,280,750
Deferred Compensation Management Fees	1,819,024
WSIB Operating Costs	4,699,376
OST Operating Costs	72,679
Total Other Expenses	<u>11,026,496</u>
Total Investment Expenses	<u>\$ 96,208,040</u>

Schedule of Payments to Consultants For the Year Ended June 30, 2002

	Commission/Fee
Communications	
Arnerich Massena Associates	\$ 1,012,735
Daniels Brown Communications Inc.	12,500
Northwest Interpreters, Inc.	1,206
Total Communications	1,026,441
Computer/Technology	
Aetea Information Technology Inc.	158,736
Ajilon	159,418
Brewer Consulting Service	2,700
Daniels Consulting Co.	484,268
DHK Associates	10,710
Logical E-Business Solutions, Inc.	4,169
Lyons Commercial Data Inc.	1,595
Martin Analysis & Programming Inc.	363,173
Milestone Technology Inc.	72,760
Morningside	844,094
Secure Network Consultants	691
Sierra Systems	335,500
Smith McCann Computer Resources	139,575
Work Flow	255,870
Total Computer/Technology	2,833,259
Legal	
Chicoine & Hallett P.S.	769
Dixie Cattell & Associates	2,380
Ice Miller Legal & Business Advisors	31,831
Katz Sapper & Miller LLP	2,200
Lane Powell Sears Lubersky LLP	21,760
Total Legal	58,940
Management	
Cost Effective Measurement	25,000
LM Associates, Inc.	15,200
Professional Personnel Services	235,657
Transunion	51,070
William M. Mercer Inc.	70,999
Total Management	397,926
Recordkeeping	
ICMA Retirement Corporation	1,617,574
Total Recordkeeping	1,617,574
Total Payments to Consultants	\$ 5,934,140

For fees paid to investment professionals, refer to the Investment section of this report.

Statement of Changes in Assets and Liabilities
Dependent Care Agency Fund
For the Year Ended June 30, 2002

	Balance 07/01/01	Additions	Deductions	Balance 06/30/02
ASSETS				
Cash and Pooled Investments	<u>\$400,381</u>	<u>\$4,698,428</u>	<u>\$4,636,416</u>	<u>\$462,393</u>
Total Assets	<u><u>\$400,381</u></u>	<u><u>\$4,698,428</u></u>	<u><u>\$4,636,416</u></u>	<u><u>\$462,393</u></u>
LIABILITIES				
Accounts Payable	\$ -	\$4,626,128	\$4,626,061	\$ 67
Other Short-Term Liabilities	<u>400,381</u>	<u>4,698,428</u>	<u>4,636,483</u>	<u>462,326</u>
Total Liabilities	<u><u>\$400,381</u></u>	<u><u>\$9,324,556</u></u>	<u><u>\$9,262,544</u></u>	<u><u>\$462,393</u></u>